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THE COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS & ENERGY

Direct Testimony
of
Patrick L. Baryenbruch

In the Matter of the Revision of Rates

Filed by

Massachusetts-American Water Company
DTE _____

November 16, 2000

1. Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Patrick L. Baryenbruch, 119 N. Boylan Avenue, Suite B, Raleigh, North Carolina 27603.

2. Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I received a Bachelors degree in accounting from the University of Wisconsin-Oshkosh and a Masters in Business Administration degree from the University of Michigan.

I am a certified public accountant and am a member of the American Institute of Certified Public Accountants and the North Carolina Association of Certified Public Accountants.

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I began my career as a staff accountant with Arthur Andersen & Company where I performed financial audits of utilities, banks and finance companies. After three years I left to pursue an M.B.A. degree. Upon graduation from business school, I worked with the consulting firms of Theodore Barry & Associates and Scott Consulting Group. I reached the level of managing associate with both firms.

During my consulting career, I have performed consulting assignments for approximately 50 utilities and 10 public service commissions. I have participated as project manager, lead or staff consultant for 24 commission-ordered management and prudence audits of public utilities. Of these, I have been responsible for evaluating the area of affiliate charges and allocation of corporate expenses in the Commission-ordered audits of Connecticut Light and Power, Connecticut Natural Gas, General Waterworks Corporation (Pennsylvania Operations), Philadelphia Suburban Water Company, Pacific Gas & Electric Company and SCEcorp.

3. Q. WHAT ARE YOUR DUTIES AND RESPONSIBILITIES IN YOUR CURRENT POSITION?

A. I am the President of my own consulting practice, Baryenbruch & Company, which was established in 1985. In that capacity, I provide consulting services to utilities and their regulators.

4. Q. PLEASE DESCRIBE THE REASON FOR YOUR TESTIMONY IN THIS CASE.

A. I am presenting the results of my study which evaluated the services provided by American Water Works Service Company (Service Company) to Massachusetts-American Water Company (Massachusetts-American). This study was undertaken in conjunction with Massachusetts-American rate case for the test year ending June 30, 2000.

5. Q. WHAT WERE THE OBJECTIVES OF YOUR STUDY?

A. This study was undertaken to answer two questions. First, what would be the economic impact on Massachusetts-American Water Company if it were to outsource all of the services that it now receives from the Service Company? Second, are the services Massachusetts-American receives from the Service Company necessary?

6. Q. WHAT CONCLUSIONS WERE YOU ABLE TO DRAW CONCERNING THE ECONOMIC IMPACT OF OUTSOURCING ALL THE SERVICES PROVIDED BY THE SERVICE COMPANY?

A. I was able to draw the following conclusions:

(1) On average, the hourly rates for outside service providers are 92% greater than the Service Company's hourly rates.

(2) The services performed by the Service Company are vital and could not be procured externally by Massachusetts-American without careful supervision on the part of Massachusetts-American. If these services were contracted entirely to outside providers, Massachusetts-American would have to add one more position to manage activities of the outside firms. This position would be essential to ensure a high level of quality service is being provided.

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(3) If all the services now provided by the Service Company had been out-sourced during the June 30, 2000 test year, Massachusetts-American and its ratepayers would incur an additional \$930,566 in annual expenses. This is more than 103% higher than the Service Company's total billings to Massachusetts-American during the year ended June 30, 2000.

(4) It would be difficult for Massachusetts-American to find local service providers with the same specialized water industry expertise as that possessed by the Service Company staff. Service Company personnel spend substantially all their time serving operating water companies. This specialization brings with it a unique knowledge of water utility operations and regulation that is most likely unavailable from local service providers.

(5) Service Company costs that cannot be charged directly to operating companies are allocated on the basis of number of customers. This is a straightforward and entirely reasonable methodology. The cost to administer this allocation technique is lower than alternatives that use multiple factors.

(6) Service Company fees do not include any profit markup. Only its actual cost of service is being recovered from Massachusetts-American ratepayers.

7. Q. DO YOU AGREE WITH THE METHOD BY WHICH SERVICE COMPANY COSTS, THAT ARE NOT DIRECT- CHARGED, ARE ALLOCATED TO OPERATING COMPANIES?

A. Yes. Service Company costs that cannot be charged directly to an operating company are allocated on the basis of number of customers. This method is straightforward and entirely appropriate. It reasonably reflects how costs are incurred on the behalf of operating companies. Finally, the cost to administer this allocation technique is lower than more complicated alternatives that use multiple factors. Before changing to number of customers, the Service Company used numerous factors as its allocation basis. That approach was very cumbersome to administer and difficult to explain.

8. Q. WHAT CONCLUSIONS WERE YOU ABLE TO DRAW CONCERNING MASSACHUSETTS-AMERICAN'S NEED FOR THE SERVICES PROVIDED BY THE SERVICE COMPANY?

A. I was able to draw the following conclusions:

(1) Massachusetts-American could not function without the services that are provided to it by the Service Company. These services are the same type of activities that must be carried out by a stand-alone utility company to ultimately provide customers with service.

(2) There is no redundancy in the services provided by the Service Company and the activities that are performed by Massachusetts-American itself.

9. Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes.